

**STATE OF NEW JERSEY  
BOARD OF PUBLIC UTILITIES  
OFFICE OF ADMINISTRATIVE LAW**

I/M/O THE PETITION OF ATLANTIC )  
CITY ELECTRIC COMPANY, AND )  
CONECTIV COMMUNICATIONS, INC. )  
AND NEW RC, INC. FOR APPROVAL )  
UNDER N.J.S.A. 48:2-51.1 AND )  
N.J.S.A. 48:3-10 OF A CHANGE IN )  
OWNERSHIP AND CONTROL )

**OAL Docket No:** PUC-04036-01  
**BPU Docket No:** EM01050308

**DIRECT TESTIMONY AND EXHIBITS OF BARBARA ALEXANDER**

**Filed on Behalf of**

**THE NEW JERSEY DIVISION OF THE RATEPAYER ADVOCATE**

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September 21, 2001

1 Q. PLEASE STATE YOUR NAME, ADDRESS AND OCCUPATION.

2 A. My name is Barbara R. Alexander. I use a business title of Consumer Affairs Consultant.

3 My address is 83 Wedgewood Dr., Winthrop, ME 04364. I appear in this case as a witness  
4 on behalf of the New Jersey Division of the Ratepayer Advocate (Ratepayer Advocate).

5 Q. PLEASE DESCRIBE YOUR BACKGROUND AND QUALIFICATIONS FOR YOUR  
6 TESTIMONY IN THIS PROCEEDING.

7 A. I opened my consulting practice in March, 1996, after nearly ten years as the Director of the  
8 Consumer Assistance Division of the Maine Public Utilities Commission. While there, I  
9 testified as an expert witness on consumer protection, customer service and low-income  
10 issues in rate cases and other investigations before the Commission. My current consulting  
11 practice is directed to consumer protection, customer service, and low-income issues  
12 associated with the move to competition in the telephone, electric and gas industries. My  
13 recent clients include the Pennsylvania Office of Consumer Advocate, New Jersey Division  
14 of Ratepayer Advocate, Maine Office of Public Advocate, Colorado Office of Consumer  
15 Counsel, Vermont Department of Public Service, the Washington Office of Peoples  
16 Counsel, Texas Public Utility Commission, West Virginia Office of Consumer Advocate,  
17 AARP, and the Maine Public Utilities Commission. Among my publications are: Retail  
18 Electric Competition: A Blueprint for Consumer Protection, (U.S. Department of Energy,  
19 Office of Energy Efficiency and Renewable Energy, October, 1998)<sup>1</sup>, How to Construct a  
20 Service Quality Index in Performance Based Ratemaking, The Electricity Journal, April,

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<sup>1</sup>Available on the Internet: [http://www.eren.doe.gov/electricity\\_restructuring](http://www.eren.doe.gov/electricity_restructuring).

1 1996, and The Transition to Local Telecommunications Competition: A New Challenge for  
2 Consumer Protection (Public Counsel Section, Washington Attorney General, October,  
3 1997).

4 I have assisted the Ratepayer Advocate in its participation in restructuring activities  
5 concerning both electricity and natural gas since 1997. I submitted testimony on behalf of  
6 the Ratepayer Advocate in all the electric utility restructuring proceedings on consumer  
7 education, customer protection, and Code of Conduct issues. I submitted testimony on  
8 behalf of the Ratepayer Advocate on all the natural gas restructuring proceedings on these  
9 same issues. In addition, I recently filed testimony in Pennsylvania (on behalf of the Office  
10 of Consumer Advocate) and in New Jersey (on behalf of the Division of Ratepayer  
11 Advocate) on the pending merger of FirstEnergy and GPU Energy.

12 I am also an attorney, and a graduate of the University of Michigan (1968) and the  
13 University of Maine School of Law (1976).

14 My resume is attached as BA Exhibit A.

15 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

16 A. The purpose of my testimony is to respond to the filing by Atlantic City Electric Company<sup>2</sup>,  
17 Conectiv Communications, Inc., and New RC, Inc. for approval of a change in ownership  
18 and control, specifically to obtain the approval of the New Jersey Board of Public Utilities  
19 (BPU or the Board) for the proposed merger with Potomac Electric Power Co. (Pepco), an

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<sup>2</sup> I will refer to ACE or Atlantic City as the company that provides distribution services in New Jersey. Within the Conectiv operations (that encompass Delaware, Maryland, New Jersey, and Virginia), this service is often labeled the Atlantic region.

1 electric utility that serves the District of Columbia and portions of Maryland. My testimony  
2 will address those aspects of the merger that may affect customer reliability and service  
3 quality and universal service programs. After a review of New Jersey's service quality  
4 performance requirements, and Atlantic City Electric Co.'s service quality and performance  
5 in New Jersey, my testimony will propose a Reliability and Customer Service Quality Index  
6 (SQI) that should be approved by the Board as a condition of the approval of this merger. I  
7 will also propose that ACE implement a universal service program as a condition of the  
8 merger that is similar to the program design that I recommended as a condition of the merger  
9 between GPU Energy and FirstEnergy.<sup>3</sup>

10 Q. PLEASE SUMMARIZE YOUR CONCLUSIONS AND RECOMMENDATIONS.

11 A. My key conclusions and recommendations are as follows:

12 **I. New Jersey's Customer Service and Reliability Policies.**

- 13  
14 " The BPU has adopted a rule that requires electric distribution companies to report reliability  
15 performance data and has established minimum reliability levels for 2001 and 2002. The  
16 interim rule states that the Board will adopt permanent reliability standards for 2003. There  
17 are no automatic enforcement or penalty provisions in the current interim rule.  
18  
19 " The BPU has not adopted reporting requirements or performance standards for other key  
20 customer service metrics, such as installation of service, billing accuracy, call center  
21 performance, keeping appointments, and complying with customer protection rules and  
22 standards.  
23  
24 " Atlantic City will continue to serve the great majority of residential, small commercial and  
25 industrial customers for distribution services for the foreseeable future as the provider of  
26 both regulated transmission and distribution service and most likely as the provider of Basic  
27 Generation Service. Furthermore, the service quality associated with electric service of most  
28 concern to most customers is a function of the monopoly transmission and distribution  
29 system.

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<sup>3</sup> The Stipulation pending before the BPU concerning this merger contains a provision in which GPU Energy commits to the implementation of a low income program similar to the one I recommended in my testimony.

1  
2       "     The merger will drive the participating companies to reduce costs and find savings that can  
3     pay for the costs incurred to bring about the merged companies and comply with the rate  
4     caps currently in effect for ACE.  
5

6       "     ACE s proposed Customer Service Guarantees is a welcome initiative, but it is insufficient  
7     and not comparable to those adopted in other states. Other state regulatory commissions  
8     have responded to these same circumstances with company-specific reliability and service  
9     quality standards and restitution provisions applicable to all customers to prevent  
10    deterioration in service quality and reliability of service as a result of the move to retail  
11    competition and mergers.  
12

## 13       **II. Atlantic City s Service Quality and Reliability Performance.**

14  
15       "     With respect to reliability of service, ACE s recent performance should be continued and  
16     improved as a result of the merger. This goal can only be met with performance standards  
17     that are stricter than those currently in place as interim reliability standards.  
18

19       "     ACE has historically performed below industry performance with respect to its Call Center,  
20     but performance has improved recently. Any approval of the merger should require  
21     continued performance that reflects this recent improvement.  
22

23       "     ACE s BPU Complaint Ratio in 1998 and 1999 is above average, but the 2000 ratio of 1.69  
24     complaints per 1000 customers is more in line with the complaint ratio experienced by other  
25     New Jersey or Pennsylvania utilities.  
26

27       "     ACE tracks its installation of service, but does not track its on-time appointment  
28     performance for repairs or installation of service. ACE s percentage of services installed  
29     within 10 days shows a lower level of performance than in Delmarva.  
30

31       "     ACE s disconnection ratio dropped to zero in 2000, due to a conversion to a new billing  
32     system, but the historical disconnection rate is very high compared to disconnection ratios at  
33     other New Jersey and Pennsylvania electric utilities.  
34

35       "     ACE s customer satisfaction surveys, while a useful tool for Company management, are not  
36     the best or most reliable indicators of customer service, and I do not recommend survey  
37     results be included in the SQI. The reliance on the J.D. Powers Survey concerning customer  
38     satisfaction ratings for Pepco is misplaced.

1                   **III. Proposed Service Quality Index for Atlantic City Electric.**

2  
3       "       In order to bring the promised benefits of the merger to New Jersey customers and prevent a  
4 deterioration of service quality and reliability, ACE should be subject to a Service Quality  
5 Index (SQI) that imposes firm baseline performance standards and customer restitution  
6 payments for failure to maintain these performance standards. This approach should  
7 complement the Service Quality Guarantee program that is applicable to individual  
8 customers who suffer service quality failures as proposed by the Petitioners.

9  
10       "       With respect to reliability of service, ACE should be subject to a specific performance  
11 standard that reflects the promises made by the Petitioners for this merger approval and the  
12 historical performance in CAIDI and SAIFI. Performance standards should be established  
13 lower than the interim reliability standards set by the BPU.

14  
15       "       Performance standards should be set for Conectiv's call centers that serve ACE customers to  
16 bring its operations in conformance with industry standards and standards in effect in other  
17 states for electric utilities.

18  
19       "       A standard should be established for customer installation of service that reflects the actual  
20 performance of Conectiv at its Delmarva distribution company.

21  
22       "       The SQI should include a measurement of the frequency of disconnection per 1000  
23 customers, and the BPU Customer complaint ratio. However, it is not clear whether ACE's  
24 historical disconnection ratio (prior to 2000) should be used as the basis for a baseline  
25 performance standard because of the extremely high disconnection rate compared to other  
26 New Jersey and Pennsylvania electric utilities.

27  
28       "       The SQI should include pre-established amounts for customer restitution payments for the  
29 failure to maintain or improve service quality as measured annually by its performance in  
30 comparison to the recommended performance standards. The customer restitution dollars  
31 should be returned to customers in the form of a one-time rebate or a reduction in regulated  
32 T&D rates in a pro-rata manner. The maximum customer restitution dollars at risk for  
33 failure to performance at the required performance standards should equal 5% of ACE's  
34 distribution operations and maintenance expenses, approximately \$2 million based on 2000  
35 expenses.

36  
37       "       With regard to the Company's proposed Service Quality Guarantee, the provisions relating  
38 to individual customer credits for service quality failures should be implemented, but the  
39 system-wide service quality program proposed by the Company should be rejected in favor  
40 of the Service Quality Index as reflected in my testimony .

41  
42       "       ACE should report its SQI results annually to the BPU, Ratepayer Advocate, other interested  
43 parties, as well as to its customers.

1 **IV. ACE s Implementation of Universal Service Programs.**

2  
3 " ACE s low income and universal service programs do not meet the need of its low income  
4 customers and are far below those in effect at other Conectiv companies (for Delaware and  
5 Maryland) and Pepco (for the District of Columbia and Maryland).  
6

7 " Your Honor and the Board should order ACE to implement a bill payment assistance  
8 program similar to the CAP program that Jersey Central has committed to implement in the  
9 Stipulation of its merger petition currently pending before the Board and that reflects similar  
10 programs implemented in Pennsylvania. This program requires that eligible customers pay a  
11 certain percentage of the household income for electric service and the balance of the  
12 customer s bill is subsidized so that the amount of the customer s bill payment assistance  
13 reflects the impact of the household electric burden on the household income.  
14

15 " ACE s Project Comfort approved as part of the CRA proceeding should continue at its  
16 approved funding levels, at least until the Board completes its Universal Service proceeding  
17 and implements a more comprehensive universal service program.  
18

19 " Your Honor and the Board should order that ACE ramp up the new CAP program from  
20 \$500,000 in 2002 to \$2 million in 2004.  
21

22 " Low income customers should be automatically screened for participation in ACE s energy  
23 assistance programs by financial assistance agencies. ACE should negotiate an electronic  
24 communications protocol with such agencies to transmit the necessary customer usage and  
25 bill information so that customer percentage of income payment calculations can be  
26 accomplished at the same time that the customer applies for LIHEAP, Lifeline, and other  
27 relevant financial assistance programs operated by state agencies.  
28

29 " Your Honor and the Board should require ACE to formalize and implement its hot  
30 weather disconnection moratorium as a condition of the merger.  
31

32 " Your Honor and the Board should require ACE to explore and implement a low income  
33 aggregation program so that low income customers participating in universal service  
34 programs can obtain access to the lowest cost electric service.  
35

36 " Finally, Your Honor and the Board should require ACE to implement a targeted educational  
37 program so that eligible low income customers will be aware of these programs and can  
38 participate with the least amount of delay and administrative red tape. At a minimum, ACE  
39 should inform all protected customers of the existence of the low income programs and  
40 how to apply.

1           **I. NEW JERSEY S CUSTOMER SERVICE AND RELIABILITY POLICIES**

2           Q.   DOES NEW JERSEY HAVE CUSTOMER SERVICE QUALITY AND RELIABILITY  
3           STANDARDS APPLICABLE TO ALL ELECTRIC UTILITIES?

4           A.   Late in 2000 the New Jersey BPU adopted Interim Electric Distribution Service Reliability  
5           and Quality Standards, N.J.A.C. 14:5-7 (eff. January 2, 2001). In general, the Board s  
6           rules rely on the annual calculation and reporting of SAIFI (System Average Interruption  
7           Frequency Index, a measure of the frequency of interruptions per customer) and CAIDI  
8           (Customer Average Interruption Duration Index, a measure of the duration of outages per  
9           outage event). The rules establish a minimum reliability level for each electric distribution  
10          utility that is equal to the 10-year historical average for SAIFI and CAIDI plus two standard  
11          deviations. This standard is in effect in 2001. In a proposed amendment to these rules  
12          published at the same time, the Board has proposed to clarify the time period during which  
13          the minimum reliability levels will be in effect to include 2002 as well. Beginning in late  
14          2002, the Board has stated that it intends to adopt permanent standards with penalties for  
15          noncompliance that would be applied automatically. Until these permanent standards are  
16          established, however, there are no automatic penalties or other enforcement actions that are  
17          linked to failure to maintain the stated reliability performance levels. Furthermore, the  
18          actual numerical minimum reliability levels that apply to each utility have not been  
19          published and, because they are set based on such a wide variation from the average  
20          performance (two standard deviations), they have the potential of allowing a significant  
21          deterioration in service quality.

1 With respect to other customer service metrics, such as the timeliness of installation  
2 of service, call center performance (percent of calls answered within 30 seconds or average  
3 speed of answer, abandonment rate, and busy signal rate), billing accuracy or customer  
4 complaint performance, there are no reporting requirements, benchmarks or performance  
5 standards established at this time.

6 Q. HOW HAS THE BPU RESPONDED TO SERVICE QUALITY AND RELIABILITY  
7 ISSUES IN THE PAST?

8 A. Similar to many states, the New Jersey BPU has used the fairly regular filing of rate cases to  
9 analyze and respond to utility customer service and reliability issues if any party brought  
10 those issues into question. Also, in specific instances of service quality failure and  
11 extensive loss of power, such as with hurricanes or severe storms, the Board has reviewed a  
12 particular utility's performance and ordered improvements.<sup>4</sup> The Board also has the  
13 authority to impose fines and penalties for violations of its rules and orders, but this has not  
14 typically occurred with respect to service quality issues in the past.

15 The Board can, of course, initiate a separate investigation into service quality and  
16 issue orders or adopt generic rules to seek improvement or assess penalties or customer  
17 restitution. However, these separate proceedings are procedurally cumbersome and  
18 extremely litigious, particularly when penalties or fines are at stake. As a result, these case-  
19 by-case proceedings typically do not result in timely restitution to customers in the form of  
20 reduced rates or reduced earnings. They will also be more difficult if there are no

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<sup>4</sup>This occurred with the heat-related outages that occurred in 1999.

1 enforceable performance standards established in the rules. Without enforceable  
2 performance standards, the Board will operate with one hand tied in any attempt to seek  
3 immediate relief for deteriorating service quality, since it will always be more cost effective  
4 for a utility to litigate the evidence and the proposed remedy in a long, drawn-out battle to  
5 avoid monetary penalties or increased investment and other expenditures that may be  
6 necessary to improve service quality. A more effective approach is to inculcate the need for  
7 a certain level of performance throughout the management of the distribution utility by  
8 linking the need to perform at a specific level with the profits of the company. Utilities who  
9 know in advance how the regulators will monitor and measure service quality performance  
10 and who know how the regulators will respond, at a minimum, to service quality failures  
11 will more likely structure their operations to achieve compliance with the known standards.

12 Q. WHAT ROLE DOES EMERGING COMPETITION IN THE ELECTRICITY MARKET  
13 PLAY IN ASSURING ADEQUATE SERVICE QUALITY?

14 A. In a perfectly competitive market, consumers will shop for an electricity supplier based on  
15 both price and service quality. Competitors will compete based on service quality features  
16 that they find are important to customers. Of course, there is no "perfect" market, but even  
17 in a relatively competitive market there is usually a backstop to assure adequate service  
18 quality in the form of state and federal consumer protection regulations. More importantly,  
19 the service quality associated with electric service of most direct concern to most customers  
20 is a function of the monopoly transmission and distribution system. As a result, customers  
21 will not be able to improve their service quality, should they choose to do so, by selecting a

1 competitive energy provider, except with respect to the provider's issuance of its own bill or  
2 responding to inquiries and complaints about the provider's charges or contract terms.  
3 Customers will remain the captive of ACE for reliability of service associated with the  
4 distribution system, meter reading, the issuance and collection of most bills, and for  
5 responding to questions and concerns about the ACE portion of the bill. It is because of the  
6 key role played by the distribution companies that New Jersey's electric restructuring  
7 legislation requires the BPU to make sure that service quality and reliability does not  
8 deteriorate as a result of retail electric competition.

9 Q. PLEASE DISCUSS THE IMPACT OF THE MERGER OF CONECTIV AND PEPSCO.

10 A. Conectiv's proposed merger with Pepco will drive the participating companies to reduce  
11 costs and find savings that can pay for the costs incurred to bring about the merged  
12 companies. While the Petitioners for the merger approval have not officially promised any  
13 particular level of merger savings, they will naturally incur costs to effectuate the merger in  
14 the face of the applicable rate caps through the transition period in effect in each state.  
15 Finally, the merger will require a significant amount of time and effort by the current  
16 management of both companies as they search for the promised best practices and the  
17 integration strategies that will effect day-to-day operations. In short, stockholders of both  
18 companies will be looking to the balance sheet and income statement to determine if the  
19 merger was worth it. This motivation may result in efforts to reduce employees and  
20 programs in a manner that adversely effects service quality and reliability, particularly when  
21 the Company's headquarters are no longer located in New Jersey. Of course, it may very

1 well be possible to reduce costs, increase efficiency, increase profits, and maintain an  
2 adequate customer service profile in the long run. However, in the short run it is likely that  
3 changes that adversely effect service quality will occur. The existence of a robust Service  
4 Quality and Reliability Index will temper management s zeal in this regard. Other state  
5 public utility commissions faced with merger proposals have reacted with service quality  
6 and reliability requirements as conditions to the merger. A sampling of these recent  
7 decisions in other states is attached to my testimony as BA Exhibit B. The adoption of a SQI  
8 will enhance the likelihood that promises made by the Petitioners in this proceeding will be  
9 achieved. Furthermore, my proposal will reduce the risk of service quality deterioration at  
10 little or no cost to ratepayers and will complement the proposal by the Petitioners for the  
11 Service Quality Guarantee program.

12 Q. PLEASE DESCRIBE THE PETITIONERS PROPOSALS AND STATEMENTS ABOUT  
13 ITS SERVICE QUALITY AND RELIABILITY IN THEIR APPLICATION FOR  
14 APPROVAL OF THE MERGER.

15 A. The Petitioners have stated that the proposed transaction will enhance Petitioners ability to  
16 acquire and implement new technologies to maintain and improve reliability and customer  
17 service....The Petitioners will establish processes to identify and implement the best  
18 practices of the companies. The Merger will have no adverse effect on CCI [Conectiv]  
19 operations. [Petition at 8] The Joint Testimony of John M. Derrick, Jr. and Thomas S.  
20 Shaw promise:

21 " The merger should enhance the reliability of the electric transmission and distribution

1 systems of the operating companies. [Joint Testimony at 6]

2 " As with the question of reliability, the Merger should enhance the level of customer service  
3 of the operating companies. Again, Pepco is ranked number one in the Eastern Region in  
4 customer satisfaction for the year 2000 by J.D. Power and Associates. It is our intention to  
5 bring Conectiv to the same high standard of customer satisfaction. [Joint Testimony at 7-8]

6 Q. DID THE PETITIONERS PROPOSE ANY SPECIFIC PERFORMANCE TARGETS OR  
7 PROGRAMS TO ACCOMPANY THE PROPOSED MERGER WITH RESPECT TO  
8 CUSTOMER SERVICE OR RELIABILITY?

9 A. Yes. The Petitioners proposed a Service Quality Guarantee program as part of the merger  
10 application. The details of this proposal are presented by Mr. HasBrouck. This program is a  
11 combination of individual customer specific credits if certain service quality failures occur  
12 and promises to submit certain plans and programs with associated deadlines if system-wide  
13 failures in some areas occur. With respect to individual customer credits, these will occur if  
14 an appointment is missed within a four-hour window, if new service is not installed within  
15 10 days, if a bill is inaccurate and ACE has to issue a bill adjustment, and if a customer s  
16 outage is restored later than 24 hours. If system-wide failures occur, this will trigger a  
17 requirement to file plans with associated deadlines with the Board, but are not accompanied  
18 by any penalties or customer rebate programs. These system-wide performance guarantees  
19 include: Call Center performance below 70% calls answered within 30 seconds, Call Center  
20 Abandonment Rate above 10%, a CAIDI result greater than 2 standard deviations from the  
21 historical mean, a SAIFI result greater than 2 standard deviations from the historical mean,

1 and the presence of an individual circuit on the worst circuits list for more than 2 years. I  
2 will discuss this proposal in more detail and describe why it is insufficient in Part III of my  
3 testimony.

4  
5 **II. ACE S SERVICE QUALITY AND RELIABILITY PERFORMANCE**

6 Q. PLEASE DESCRIBE THE SERVICE QUALITY AND RELIABILITY PERFORMANCE  
7 DATA YOU HAVE ANALYZED AND HOW YOU WILL PRESENT YOUR  
8 CONCLUSIONS ABOUT ACE S PERFORMANCE IN YOUR TESTIMONY.

9 A. I have prepared a chart that shows ACE s reliability and service quality performance as  
10 collected by ACE. See BA-Exhibit C, attached to my testimony. I will first discuss the  
11 reliability performance of ACE, followed by service quality performance for the other  
12 customer service indicators.

13 Q. AS A PRELIMINARY MATTER, PLEASE EXPLAIN THE TYPE OF DATA YOU WILL  
14 BE DISCUSSING IN YOUR TESTIMONY.

15 A. With respect to the reliability performance data, I will refer to minutes of interruption for the  
16 CAIDI performance area. This performance area measures the duration of customer  
17 interruptions. With respect to SAIFI, I will refer to the frequency of interruptions  
18 experienced by customers. In all cases, the better performance is a lower number. Also, all  
19 of the performance data for outages already excludes major storms and severe weather  
20 outages, as required by the Board s rules. With regard to the call center, I typically discuss  
21 the percentage of calls answered by a live customer service representative when the

1 customer selects that option from the automated menu within a specified number of seconds,  
2 either 30 seconds or 60 seconds. The Abandonment Rate is the percentage of calls in which  
3 the customer gets into the call system, but then abandons the call before it is answered.

4 The Busy Signal Rate is the percentage of calls in which the customer receives a busy signal  
5 when attempting to call ACE. All of the other performance data is either self-explanatory or  
6 explained further in my testimony.

7 Q. DOES ATLANTIC CITY ELECTRIC COLLECT AND ANALYZE SUFFICIENT  
8 CUSTOMER SERVICE AND RELIABILITY INFORMATION IN ITS MANAGEMENT  
9 OF DISTRIBUTION OPERATIONS IN NEW JERSEY?

10 A. In general, ACE does not collect, analyze, or establish internal performance standards for  
11 many customer service indicators that are routinely collected by other electric utilities. I was  
12 surprised at the lack of historical information and data concerning many key performance  
13 areas. In some cases, I have relied on performance as demonstrated by other New Jersey  
14 (particularly Jersey Central) and Pennsylvania electric utilities in making my  
15 recommendations due to the lack of information.

16 Q. PLEASE DESCRIBE THE RELIABILITY PERFORMANCE OF ACE IN THE RECENT  
17 PAST.

18 A. ACE gathers and reports SAIFI and CAIDI performance data for the entire New Jersey  
19 service territory and by sub-regions with this area. Data for the 1990-2000 period (presented  
20 in BA Exhibit C) shows that ACE's CAIDI performance has averaged 85.22 minutes, with a  
21 high of 137 minutes in 1996 and a low of 60.66 minutes in 1990. Performance in the last

1 three years has averaged approximately 91 minutes.

2 ACE s SAIFI performance has averaged .77 interruptions per customer per year, with  
3 a high of 1.03 and a low of .56. In only one year has SAIFI risen over 1 interruption per year  
4 and that was 1.03 in 1994.

5 The interim standards in effect under the BPU Reliability rules for both CAIDI and  
6 SAIFI would allow a significant annual deterioration in service prior to triggering any formal  
7 action. For example, the SAIFI interim standard of 1.13 has never been reached in the prior  
8 ten years and is almost twice as high as the actual performance in most years. With respect  
9 to CAIDI, the interim standard of 131 minutes was exceeded only once in 1995 and would  
10 result in a 45% deterioration in service compared to the performance of the Company in the  
11 last three years. My concern about the generous nature of the interim standards is due in part  
12 to the fact that this historical data already excludes all major storms and severe outage events  
13 which account for most of the variability in performance from year to year.

14 Q. DOES ACE MONITOR MOMENTARY INTERRUPTIONS?

15 A. No, ACE does not collect or monitor MAIFI (Momentary Average Interruption Frequency  
16 Index). These are interruptions that last a short period (usually five minutes), but have a  
17 significant effect on customer perception of service reliability. This type of outage  
18 occurrence is becoming more important with our increasing reliance on a digital economy.  
19 As a result, we do not know as much as we would like about ACE s power quality  
20 performance. Your Honor and the Board should require ACE to collect such data.

1 Q. HOW DOES ACE S RELIABILITY PERFORMANCE COMPARE TO OTHER NEW  
2 JERSEY ELECTRIC UTILITIES?

3 A. According to performance data for other New Jersey utilities that I gathered for the GPU  
4 Energy merger proceeding, ACE s performance is about the same as Jersey Central (GPU  
5 Energy) with respect to SAIFI, but significantly better with respect to CAIDI. However, it is  
6 Jersey Central that is the lowest performer with respect to CAIDI compared to all other New  
7 Jersey utilities. My recommendations with respect to ACE s reliability performance  
8 standards are designed to maintain the current level of service quality at a minimum, as well  
9 to reflect the promises of the Petitioners that the merger will improve reliability of service  
10 for New Jersey customers.

11 Q. PLEASE DISCUSS ACE S CUSTOMER SERVICE AT ITS CALL CENTER.

12 A. Overall, ACE s call center has provided an inadequate level of customer service for several  
13 years. This performance is below what is allowed in other states and below the level of  
14 service typically delivered by other electric utilities. This sub-par performance was  
15 confirmed in a study done for Conectiv that compared its call center performance with other  
16 comparable utilities. This study found that Conectiv performed in the 3<sup>rd</sup> and 4<sup>th</sup> quartile on  
17 all call center performance metrics evaluated by the consultants. [RAR-SQ-14(g)]. In 1997,  
18 only 72% of the calls were answered within 30 seconds and in 2000, 69% of the calls were  
19 answered within 30 seconds. The Abandonment Rate has remained in the 4-5% range for  
20 the last several years, but the Busy Signal Rate soared to 29% in 2000, an astounding figure  
21 that means almost one in three customers trying to call ACE received a busy signal and

1 could not even get in line to wait for a customer service representative or make use of the  
2 automated call services. Conectiv has recognized its poor call center performance and  
3 undertaken several management initiatives to improve this performance. Certainly, the  
4 performance recorded to date in 2001 (84% calls answered within 30 seconds through June,  
5 with a 1.7% Abandonment Rate and 2.4% Busy Signal Rate) has demonstrated substantial  
6 improvement in all the call center performance metrics I described above. My recommended  
7 call center performance standards are intended to reflect this improved performance and  
8 make sure that it continues as a condition of any merger approval. I recommend that Your  
9 Honor and the Board reject the Petitioners s proposed 70% calls answered within 30 seconds  
10 as part of its Service Guarantee program.

11 Q. PLEASE DISCUSS THE COMPANY S CUSTOMER COMPLAINT PERFORMANCE.

12 A. Exhibit BA-2 includes the ACE customer complaint ratio (per 1,000 customers) for those  
13 complaints that are informally appealed to the BPU for resolution. This complaint ratio  
14 appears quite high, based on my experience with other utilities, averaging over 3 in 1998 and  
15 1999 and then falling to a more typical rate of 1.7 in 2000. However, ACE does not have  
16 historical data prior to 1998. For example, the comparable complaint ratio for Jersey Central  
17 is routinely below 2 complaints per 1000 customers. In Pennsylvania, the PUC complaint  
18 rate for electric utilities (residential customers) averaged .43 in 1998 and .79 in 1999.<sup>5</sup>

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<sup>5</sup> The statistics I present throughout my testimony concerning Pennsylvania electric utility performance is derived from the annual Utility Consumer Activities Report and Evaluation published annually by the PUC and available on its website: <http://puc.paonline.com>.

1 Q. PLEASE DISCUSS ACE S COLLECTION EFFICIENCY AND DISCONNECTION  
2 RATIO.

3 A. ACE, like other New Jersey electric and natural gas utilities, uses a wide variety of  
4 collection tools to seek payment from customers who do not pay by the due date stated on  
5 the monthly bill, including the threat of disconnection and the actual disconnection of  
6 service. Disconnection of residential customers in particular can result in risks to household  
7 health and safety. As a result, disconnection of service to residential customers is regulated  
8 by the Board to minimize such risks. A utility is required to conduct its collection activities  
9 in the most efficient manner so as to minimize the amount of bad debt expenses included in  
10 rates, as well as comply with the regulations associated with disconnection of service. As a  
11 result, a utility cannot rely entirely on disconnection of service to collect its overdue bills.

12 ACE s disconnection ratio for residential customers was 42.9 in 1997 and then  
13 steadily fell to 28.4 in 1999. In 2000, no customers were disconnected and this collection  
14 tool has only begun again to be used in the summer of 2001. This halt was due to the  
15 adoption of a new billing and collection system at ACE, but this complete lack of pursuit of  
16 disconnection of service for approximately 18 months is unprecedented in my experience.  
17 During this period the Company s net write off expense has averaged \$2.8-2.9 million,  
18 approximately .3% of all revenues [RAR-SQ-8], but data is only available through 2000 and  
19 these figures may not reflect the impact of the halt in disconnection of service during 2000  
20 and early 2001. I am concerned about the on again-off again use of the disconnection tool  
21 and fear that the Company may significantly increase its use of disconnection in order to

1 prevent any significant increase in residential unpaid debt in 2001. My recommendation that  
2 the BPU monitor and include a disconnection ratio in the Service Quality Index is to prevent  
3 any sudden increase in the disconnection of residential customers in the near future and to  
4 guard against an over-reliance on this collection tool. Furthermore, ACE's historical rate of  
5 disconnection is unreasonably high. Jersey Central (GPU Energy) has a four-year average  
6 disconnection ratio of .84. Pennsylvania electric utilities report a residential disconnection  
7 rate per 1,000 residential customers that averages 11.85 in 1997, 14.84 in 1998, and 10.88 in  
8 1999. As a result, I recommend that the Board establish a baseline performance standard for  
9 ACE's disconnection rate after an analysis of ACE's compilation of this figure and a  
10 comparison between ACE's disconnection practices and those used by other New Jersey  
11 utilities. In any case, I do not recommend that the historical disconnection rates be used to  
12 establish a baseline performance standard.

13 Q. PLEASE DISCUSS HOW ACE TRACKS ITS PERFORMANCE WITH RESPECT TO  
14 FIELD OPERATIONS, SUCH AS INSTALLATION OF SERVICE AND KEEPING  
15 APPOINTMENTS.

16 A. ACE does not track installation appointments, but does track the percentage of customers for  
17 whom installation is completed within 10 days. The 10-day performance window is far too  
18 lax compared to my experience with other utilities in Maine and Pennsylvania, most of  
19 whom seek to install all services within three business days. In any case, ACE only  
20 completes 75-85% of its installation service requests within 10 days, a performance standard  
21 that is far too low in absolute terms and in relationship to the 90-95% performance in effect

1 in Delmarva, ACE's sister company.

2 Q. DOES ACE MEASURE CUSTOMER SATISFACTION BY MEANS OF SURVEYS?

3 A. Similar to most utilities, ACE conducts and gathers customer satisfaction data on a routine  
4 basis. The customer satisfaction data I have reviewed in this proceeding confirm the poor  
5 performance of the call center from the perspective of New Jersey customers. Customer  
6 satisfaction surveys can be a useful adjunct to other service quality and reliability  
7 performance data, but they are a poor substitute at best for actual performance indicators that  
8 are more objective and less subject to interpretation issues so often associated with survey  
9 results. Furthermore, the only really useful survey data reflects a customer's recent  
10 transaction with the utility service in question, such as the Call Center Satisfaction survey, or  
11 recent field operations experience with repair or installation of service. Generic surveys that  
12 seek customer opinion of the utility in general or even a specific aspect of the utility's  
13 service are not as useful in my opinion as objective performance data. This is because most  
14 customers do not have a specific interaction with their utility except for receiving and paying  
15 a bill. It is only when a customer seeks a specific interaction, such as a bill inquiry, a  
16 collection issue, a customer complaint, an outage, or a request for a specific service, that a  
17 customer has occasion to consider and measure the Company's customer service. When  
18 those specific interactions occur, it is more accurate to gather actual performance data and  
19 rely on this data as a measure of a utility's service quality and reliability of service. Such  
20 survey data is not available in this proceeding. Therefore, I do not recommend that Your  
21 Honor and the BPU include any customer satisfaction survey data in the SQI.

1 Q. WHAT IS YOUR OPINION OF THE J.D. POWERS SURVEY RESULTS CONCERNING  
2 PEPCO S HIGH LEVEL OF CUSTOMER SATISFACTION THAT PETITIONERS RELY  
3 UPON IN PART TO SUPPORT THEIR CLAIM THAT THE MERGER WILL RESULT IN  
4 BENEFITS FOR NEW JERSEY CUSTOMERS?

5 A. Since the Petitioners refuse to provide this survey and allow for an analysis of how it was  
6 conducted [VIN-1-35], it is difficult to make a definitive statement. However, the publicly  
7 available materials suggest that the Board should not rely on this survey to buttress support  
8 for this proposed merger. First, the customer satisfaction index is heavily weighted toward  
9 company image and does not reflect an objective analysis of customer service or  
10 satisfaction with particularly company activities. The survey assigns a weight of 40% in  
11 determining the satisfaction ratings to company image and 30% to price and value. Only  
12 17% of the calculation of customer satisfaction is allocated to power quality and reliability,  
13 5% to customer service, and 8% to billing and payment activities. Second, the overall  
14 customer satisfaction index score attributed to Pepco is 108, only 7 points above the national  
15 average. Many other utilities in other regions scored higher than 108 (5 in the midwest, 5 in  
16 the south, and 5 in the west). As a result, Pepco s performance, while higher than other  
17 utilities in the east, is not high in relationship to utilities in other parts of the country.  
18 Finally, I note that Conectiv performed below average in this customer satisfaction index.



1 A. My recommended SQI for ACE is summarized below:

Performance Area	Proposed Annual Baseline Performance Standard
CAIDI	100 minutes per customer
SAIFI	1 interruption per customer
Call Center, % Ans. In 30 sec.	80% within 30 seconds
Call Center Busy Rate: % calls	<3%
Disconnection Ratio (per 1000 customers)	To be established
Installation of Service	95% within 10 days
BPU Complaint Rate (per 1000 customers)	2

10  
11

12 Q. PLEASE EXPLAIN YOUR APPROACH WITH RESPECT TO RELIABILITY  
13 STANDARDS FOR ACE.

14 A. I propose that the SQI measure both CAIDI and SAIFI so that both the duration and the  
15 frequency of customer outages are addressed. With respect to my proposed baselines, I have  
16 relied on historical performance data and suggested performance standards that reflect actual  
17 performance and the promise by the Petitioners that the merger will improve reliability of  
18 service for New Jerseyans. My recommended standards for CAIDI and SAIFI reflect a  
19 consideration of the 10-year annual average, the Company's recent (last three years)  
20 performance and the degree of variability that is reflected by one Standard Deviation from  
21 this historical performance.

22 Q. DO YOUR PROPOSED RELIABILITY STANDARDS APPLY TO THE ENTIRE ACE  
23 SERVICE TERRITORY?

24 A. Yes, my proposed standards reflect ACE's performance for all of the Atlantic region.

1           However, there is a possibility that poor performance in one area will be offset by better  
2           performance in another area, particularly when considered from an annual average basis.  
3           Therefore, I also propose that ACE annually identify the 10 worst performing circuits for  
4           both CAIDI and SAIFI and propose specific plans for improving service quality in these  
5           areas as part of their annual SQI Report.

6           Q.    PLEASE EXPLAIN YOUR APPROACH WITH RESPECT TO THE CALL CENTER  
7           PERFORMANCE.

8           A.    ACE s current call center customer service has not been adequate, at least until recently. I  
9           propose performance targets that are typical of other electric utilities and state requirements,  
10          i.e., answer 80% percent of calls within 30 seconds<sup>6</sup>. I also recommend that the SQI include  
11          a maximum busy signal rate of 3% to ensure that ACE does not seek to improve its call  
12          answering performance by increasing the number of customer calls that encounter a busy  
13          signal at its customer call center. This will require ACE to design its call center to handle  
14          expected call volumes and staff the center with sufficiently trained personnel to handle  
15          expected call volume in a timely manner.

16          Q.    WITH RESPECT TO FIELD OPERATIONS, PLEASE DISCUSS YOUR PROPOSAL  
17          WITH RESPECT TO INSTALLATION OF SERVICE.

18          A.    The Company tracks the percent of service installation completed within 10 days. The

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<sup>6</sup> This performance area should be measured based on the percentage of customers who seek to speak with a live customer service representative and should not include calls answered by voicemail or the Voice Response Unit (VRU). It is my understanding that ACE currently measures this performance area as I have recommended, but may change this approach in the future because Pepco includes VRU and voicemail calls in measuring the performance of its call centers. Your Honor and the Board should reject any change in measuring this performance area. The current measurement methodology and the one I have recommended is typical based on my experience in Maine and Pennsylvania.

1 performance standard should reflect a very high percentage of such completions. Other  
2 electric utilities (such as GPU Energy in Pennsylvania and New Jersey) seek to install all  
3 services within three business days. Furthermore, Delmarva routinely installs service within  
4 the 95% performance level. As a result, I have proposed a performance standard of 95%.

5 Q. ON WHAT BASIS HAVE YOU PROPOSED BASELINE PERFORMANCE  
6 STANDARDS FOR COMPLAINT HANDLING ?

7 A. Since ACE has not compiled this information in a comparable form beyond the past three  
8 years, there is insufficient complaint data to rely merely on historical data alone to establish  
9 a baseline performance standard. However, based on the Company's performance in 2000  
10 (1.69 complaint ratio) and that known to be achievable at other New Jersey utilities, I  
11 recommend that the baseline performance standard for the BPU Complaint Rate be set at 2.  
12 ACE should not be able to increase its complaint ratio as a result of any reorganization or the  
13 natural impetus of the merger to reduce costs, both of which have the potential to reduce  
14 customer service. Further, it is important to note that it is entirely appropriate and normal  
15 for some volume of customer complaints to occur and not all customer complaints mean that  
16 ACE has done anything wrong. However, the purpose of including the complaint rate in  
17 the SQI is to prevent an unusually high number of complaints from occurring and to make  
18 sure that ACE takes steps to resolve complaints itself prior to referring customers to the BPU  
19 or other complaint agencies for resolution. The use of a reasonable baseline performance  
20 standard will reflect the need to recognize that some level of complaints are appropriate no  
21 matter what steps are taken by ACE to respond to customer complaints.

1 Q. DO YOU RECOMMEND THAT THE SQI INCLUDE A DISCONNECTION RATIO AND  
2 WHAT BASELINE PERFORMANCE STANDARD DO YOU RECOMMEND?

3 A. The SQI should include a disconnection ratio because of what appears to be relatively high  
4 disconnection ratios in the late 1990's and the complete lack of disconnection that occurred  
5 in 2000 and early 2001. This history suggests that the Company may engage in an extremely  
6 high ratio of disconnections to make up lost ground and improve its uncollectible expense  
7 situation. While Jersey Central has reported a four-year historical average of .84  
8 disconnections per 1000 customers, ACE reported a disconnection ratio of 43 in 1997, 35 in  
9 1998 and 28 in 1999. These figures suggest either a vastly different calculation of the ratio  
10 (compared to Jersey Central) or a significant difference in the use of the disconnection tool  
11 that should be immediately investigated by the BPU. In either case, I do not have a specific  
12 recommendation for the proper performance standard in this regard, but recommend that one  
13 be established after further investigation by the BPU as part of the compliance phase of this  
14 proceeding.

15 Q. SHOULD CUSTOMERS BE REIMBURSED DIRECTLY FOR CERTAIN SERVICE  
16 QUALITY FAILURES?

17 A. I endorse the Company's proposal for the individual customer specific service quality  
18 guarantees in this proceeding. This will mean that a customer who suffers a missed  
19 appointment, a missed service installation beyond the 10-day period, whose bill is inaccurate  
20 or who suffers an outage longer than 24 hours, will receive a modest compensation. The  
21 Company has proposed a \$25 credit for a missed appointment, \$100 for an installation

1 beyond 10 days, \$5 for a bill adjustment due to Company error, and \$50 for failure to restore  
2 service within 24 hours. HasBrouck Testimony pp. 11-12. The purpose of the Customer  
3 Service Guarantee program is for the Company to repair its relationship with the individual  
4 customer who has experienced a service failure. For these enumerated performance areas,  
5 the Company should promise to perform at a 100% performance level. Furthermore, the  
6 affected customers are easily identified. However, the proposals made by the Company with  
7 respect to system-wide indicators, such as CAIDI, SAIFI, and the performance of the Call  
8 Center are totally inadequate, both in terms of the proposed standards and the type of action  
9 that should occur if those standards are not met.

10 Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE SERVICE QUALITY  
11 GUARANTEE PROGRAM AND THE SERVICE QUALITY INDEX YOU HAVE ALSO  
12 RECOMMENDED IN YOUR TESTIMONY.

13 A. The Service Quality Guarantee program does not protect the ratepayer interests reflected in  
14 the Service Quality Index I have recommended here. At some point (which is the purpose  
15 served by the establishment of my recommended baseline standards), service deteriorates  
16 such that the revenue requirement and rates supported by ratepayers should be impacted as a  
17 means of obtaining management's attention through reimbursement to all ratepayers. The  
18 purpose of the Service Quality Index is to establish the point at which this deterioration is  
19 significant to all ratepayers, as opposed to individual customers. Therefore, there is no  
20 contradiction or duplication in both my recommendations for an SQI and the Company's  
21 service quality guarantee proposals that are directed to individual customer service quality  
22 failures.

1 Q. WHY DO YOU OBJECT TO THAT PORTION OF THE SERVICE QUALITY  
2 GUARANTEE PROGRAM PROPOSED BY THE PETITIONERS THAT RELATE TO  
3 THE CALL CENTER PERFORMANCE, AND SYSTEM WIDE CAIDI AND SAIFI?

4 A. The Company merely proposes that if it fails to perform according to its proposed standards  
5 in these areas that it will prepare a filing, program, or plan with deadlines for improvement.  
6 There is no penalty or restitution proposed for affected customers even though the extent and  
7 kind of service quality failures represented by these performance areas are likely to affect far  
8 more customers than those inconvenienced by a missed appointment or an inaccurate bill.  
9 When the system-wide CAIDI deteriorates on an annual basis, customers throughout the  
10 service territory have been adversely affected. The same is true for the inability to call and  
11 obtain services from the Company through its call center. Furthermore, the proposed  
12 standards in these areas proposed by ACE are totally inadequate and will not assure any  
13 improvement in service quality as promised will occur if the merger is approved.

14 Q. HAVE OTHER STATES ADOPTED SERVICE QUALITY GUARANTEE PROGRAMS  
15 SIMILAR TO THOSE RECOMMENDED BY THE PETITIONERS?

16 A. While Mr. HasBrouck in his testimony on behalf of the Petitioners describes the proposal as  
17 one that few utilities match, the fact is that most of the service quality guarantee programs  
18 reviewed by Mr. HasBrouck in the preparation of his testimony include, in addition to the  
19 customer specific credits for service quality failures, the type of system-wide service quality  
20 performance standards and customer restitution provisions that I have recommended in my  
21 testimony. RAR-SQ-30 lists service quality guarantee programs that were reviewed.

1           However, Mr. HasBrouck did not inform Your Honor and the Board that service quality  
2           guarantee programs in effect at NYSEG, Niagara Mohawk, NSTAR, Pacificorp, SDGE,  
3           Puget Sound, PSCO, and Central Maine Power all include broad sytem-wide service quality  
4           performance targets or standards and pre-established customer penalties for the failure to  
5           reach these performance standards. In other words, all those states and utilities have a  
6           combined customer-specific and generic SQI, similar to the approach I have recommended.  
7           Even the United Kingdom customer-specific performance standards will shortly be  
8           augmented by a new initiative to put up to 2% of a distribution utility s revenues at risk in  
9           the form of a penalty if certain system-wide service quality measurements are not met on an  
10          annual basis.<sup>7</sup> These programs adopted by state utility regulatory commissions are described  
11          in more detail in BA Exhibit B that is attached to my testimony.

12        Q.    HOW SHOULD THE CUSTOMER REIMBURSEMENTS BE STRUCTURED IN THE  
13            SERVICE QUALITY INDEX?

14        A.    In order to have a real impact on the allocation of corporate resources, the SQI should be  
15            structured so that a pre-established dollar amount is at risk if any one or more performance  
16            standards is not met in any year. The dollar amount at risk should reflect a reasonable  
17            percentage of ACE s regulated distribution operations and maintenance expenditures. If any  
18            standard is not met, all ratepayers should be reimbursed for a failure to provide adequate  
19            service quality or reliability of service. The effect of these ratepayer reimbursements is to  
20            alter the distribution company s revenue requirement or rate of return to reflect a less than

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<sup>7</sup>Office of Gas and Electricity Markets, Information and Incentives Project, Incentive Schemes, Initial Proposals, July, 2001. Available at [http://www.ofgem.gov.uk/docs2001/45\\_iip.pdf](http://www.ofgem.gov.uk/docs2001/45_iip.pdf)

1 adequate service quality. According to RAR-SQ-20, the 2000 Distribution O&M expense  
2 for ACE was \$38.3 million. I propose a maximum ratepayer reimbursement of 5% of this  
3 amount or \$2 million. If the impetus of the merger is to find savings for O&M expenses  
4 and there are no dollars at risk for reliability or customer service performance, the short term  
5 temptation will be to take chances in reorganization and staffing decisions, as well as the tree  
6 trimming and distribution maintenance budgets.

7 Q. HOW SHOULD THE CUSTOMER RESTITUTION AMOUNT BE CALCULATED IN  
8 ANY YEAR IN WHICH THE COMPANY FAILS TO PERFORM AT THE BASELINE  
9 PERFORMANCE STANDARD?

10 A. To calculate a reasonable, adequate and equitable customer restitution, I propose a  
11 methodology that assigns points to each performance area and assigns restitution amounts to  
12 each area based on whether the Company has achieved the necessary points for that  
13 performance area.

14 First, the points for each performance area are established. In this case, I proposed to  
15 assign 10 points to each performance area. To achieve all 10 points for any performance  
16 area, the Company must achieve performance at 100% (or above) of the baseline standard I  
17 have established. When performance falls below the baseline, the Company should calculate  
18 the percentage deterioration in performance and multiply that percentage by the 10 points for  
19 that performance area. When the Company performs better than the baseline, the maximum  
20 award of points is 10.

1           Whether customer restitution must be paid then depends on how the total potential  
2 customer restitution dollars are assigned to the points for each performance area. I have  
3 proposed 7 performance areas be measured and included in the SQI and a total of \$2 million  
4 be at risk in the form of customer restitution. If each area is worth an equal amount, each of  
5 the 7 performance areas will risk the loss of \$286,000 for customer restitution. When  
6 performance falls below the baseline standard, a specific amount of customer restitution  
7 dollars should be assigned to each point (or portion of a point) for performance below 10  
8 points. The customer restitution dollars should be spread between 9.99 and 7 points and not,  
9 for example 9.99 and 0 points. I recommend that all of the potential customer  
10 reimbursement dollars be allocated to the first 30% deterioration from the baseline because  
11 the Company would never actually deteriorate up to 100% of the baseline (that is, a  
12 movement from 10 points to 0 for any performance area). Therefore, all the potential  
13 customer restitution dollars should be incurred for a particular performance area if the  
14 Company fails to earn at least 7 points out of 10 for that area. The following chart shows the  
15 allocation of customer restitution dollars to the points for each performance area:

<u>Points</u>	<u>Restitution</u>
9.5-9.99	\$40,000
9.0-9.49	80,000
8.5-8.99	120,000
8.0-8.49	160,000
7.5-7.99	200,000
7.0-7.49	286,000

23  
24  
25 Any customer restitution dollars should be returned to all customers in a pro rata manner.

1 Q. PLEASE PROVIDE AN EXAMPLE OF HOW THE CUSTOMER RESTITUTION  
2 DOLLARS WOULD BE CALCULATED UNDER YOUR PROPOSED MECHANISM.

3 A. For example, if the baseline standard for SAIFI is set at 1 interruption and a performance of  
4 1.2 is reported for an annual period, this would represent a deterioration of 20% and a total  
5 of 8 points would be earned (out of a maximum of 10 points) allocated to this performance  
6 area. Pursuant to the table above, this would trigger a penalty in the amount of \$160,000 for  
7 failure to achieve this performance area.

8 Q. HOW SHOULD ACE REPORT THE SQI RESULTS TO THE BOARD AND OTHER  
9 INTERESTED PARTIES?

10 A. The Company should submit its service quality results with either an independent  
11 verification by a third party or an affidavit signed by a senior officer which attests that the  
12 information is accurate and verifiable. This information should be submitted annually to the  
13 Board, the Ratepayer Advocate, and other interested parties. This report should contain a  
14 proposed service quality report to ACE customers.

15 Q. HOW SHOULD THE COMPANY REPORT THE RESULTS OF THE SERVICE  
16 QUALITY INDEX TO CUSTOMERS?

17 A. ACE should report the results of its service quality and reliability performance to its  
18 customers annually. This report should include a full report on performance in all  
19 categories, both where the Company performed better than the baseline standards and any  
20 failures, as well as any monetary restitution being returned to customers.

1 **IV. ACE S IMPLEMENTATION OF UNIVERSAL SERVICE PROGRAMS**

2 Q. PLEASE EXPLAIN WHY UNIVERSAL SERVICE PROGRAMS AND POLICIES  
3 SHOULD BE CONSIDERED AS PART OF THIS MERGER APPLICATION.

4 A. As described earlier in my testimony, the Board is required by New Jersey law to consider  
5 the impact the merger will have on ...competition, rates, employees, and the provision of  
6 safe and adequate service at just and reasonable rates, and that it is not contrary to the public  
7 interest. N.J.S.A. 48:2-51.1 and N.J.S.A. 48:3-10. This section of my testimony will focus  
8 on the reasonable rates and public interest portion of these requirements. In my opinion,  
9 the merger between Conectiv and Pepco should be accompanied by the imposition of a  
10 universal service program applicable to ACE as a condition of the merger. I recommend that  
11 the Board condition any approval of this proposed merger on a requirement that ACE  
12 implement universal service programs designed to make sure that the rates and services  
13 provided to low income customers are not negatively impacted by the merger.

14 Q. WHY ARE LOW-INCOME ENERGY NEEDS OF CONCERN IN THIS MERGER  
15 PROCEEDING?

16 A. Low-income customers are likely to suffer the consequences of degraded service quality and  
17 reliability of service that may occur as a result of the merger. Low-income customers are  
18 likely to seek access to customer service centers, call centers, payment arrangement options,  
19 and trained customer service representatives more than other residential customers. As a  
20 result, low-income customers will be first to see the impact of changes in internal  
21 management structures, consolidating offices, and the effects of the merger-induced cost

1 cutting that may occur. If the performance of the customer call center continues to degrade,  
2 low-income customers who call to discuss their bill, seek payment arrangements, or access  
3 financial assistance programs will suffer the consequences the most. Furthermore, low-  
4 income customers often suffer more frequent outages and degraded services due to the lack  
5 of investment in distribution facilities in low-income neighborhoods. As a result, Your  
6 Honor and the Board should carefully evaluate the impact of this proposed merger on low-  
7 income customers and adopt conditions if the merger is approved that will ameliorate these  
8 impacts or prevent them altogether. The universal service program proposals are made in  
9 light of these concerns and are intended to ameliorate the likely impacts of the merger on  
10 low-income customers.

11 Q. ARE THERE OTHER PROVISIONS OF NEW JERSEY PUBLIC UTILITY LAW THAT  
12 SUGGESTS THAT UNIVERSAL SERVICE PROGRAMS AND POLICIES SHOULD BE  
13 CONSIDERED IN THIS PROCEEDING?

14 A. Yes. Section 12(b) of the Electric Discount and Energy Competition Act of 1999 ( the Act  
15 or Competition Act ) requires that a non-lapsing Universal Service Fund be established.

16 The Board is then required to determine:

17 " the level of funding and the appropriate administration of the fund;

18 " the purposes and programs to be funded;

19 " which social programs <sup>8</sup> will be provided by an electric public utility as part of the

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<sup>8</sup> Social Programs are defined by the Act as a program implemented with board approval to provide assistance to a group of disadvantaged customers, to provide protection to consumers, or to accomplish a particular societal goal, and includes, but is not limited to, the winter moratorium program, utility practices concerning bad debt customers, low income assistance, deferred payment plans, weatherization programs, and late payment deposit

1 provision of its regulated public services which provide a public benefit;

2 " whether the funds appropriated for the Lifeline Credit Program, the Tenants Lifeline  
3 Assistance Program, and the federal funds received for the Low Income Home Energy  
4 Assistance Program (LIHEAP), and funds collected by electric and natural gas utilities to  
5 off-set uncollectible electricity and natural gas bills should be deposited in the fund; and  
6 " whether new charges should be imposed to fund new or expanded social programs.

7 These statutory directives should also be viewed in light of the statement by the  
8 Legislature that one of the purposes of the Act is to ...Ensure universal access to affordable  
9 and reliable electric power and natural gas services. [Section 2(a)(4)]. The term universal  
10 service is defined as any service approved by the board with the purpose of assisting low-  
11 income residential customers in obtaining or retaining electric generation or delivery  
12 service. [Section 3].

13 The Board has initiated a proceeding [Docket No. EX-000200091] to consider how  
14 to implement these statutory directives, but has not yet issued any order. My proposal in this  
15 proceeding seeks to ensure that ACE is required to implement the obligation to implement  
16 universal service programs at the earliest opportunity that conforms with the statutory  
17 directives and policies.

18 Q. PLEASE REVIEW THE UNIVERSAL SERVICE PROGRAMS AND POLICIES THAT  
19 ATLANTIC CITY ELECTRIC CURRENTLY IMPLEMENTS IN NEW JERSEY.

20 A. ACE is in the process of developing a Comfort Partners program that targets energy

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policies, but does not include any demand side management program or any environmental requirements or controls. [Section 3]

1 efficiency measures to low income customers with electrically heated homes. This program  
2 is being implemented in compliance with the BPU s Comprehensive Resource Analysis  
3 order issued on March 9, 2001. ACE has proposed a 2001 funding level of \$566,000 for this  
4 program. [RAR-LI-2] ACE also contributes to New Jersey Shares, a program that provides  
5 emergency or crisis assistance to electric and natural gas customers in danger of  
6 disconnection for nonpayment. Under the Shares program, Conectiv has contributed  
7 \$25,000 in 1999, \$6,500 in 2000, and \$7,100 through June 2001, and Conectiv customers  
8 have received grants totally \$86,000 in 1999, \$35,000 in 2000, and \$152,000 through June  
9 2001. The average one-time grant amount is \$220-240. [RAR-LI-1] ACE does not  
10 implement any bill payment assistance programs that reduce the harsh energy burden  
11 endured by many low income customers.

12 Q. HOW DOES ACE S UNIVERSAL SERVICE PROGRAMS COMPARE TO THOSE  
13 IMPLEMENTED BY PEPCO?

14 A. ACE s current universal service programs are very small in relationship to Delmarva (owned  
15 by Conectiv) and Pepco, the merger partner. For example, in 2000, Delmarva contributed  
16 \$845,000 for low income programs in Delaware and \$2.6 million in Maryland. Pepco  
17 implements a low income rate discount in the District of Columbia and participates in the  
18 state-wide universal service program funded by all electric utilities in Maryland. The Pepco  
19 funding for low income programs in the District of Columbia is substantial: \$740,000 for a  
20 rate discount program that serves 12,600 customers; \$774,000 under a recently enacted  
21 Rider for public purpose programs; and \$1.3 million for low income weatherization and

1 energy efficiency programs. In Maryland, Pepco has contributed \$8.5 million for universal  
2 service programs. ACE s universal service programs and budget are far less than those  
3 implemented and funded by Pepco. [RAR-LI-1 and LI-6]

4 Q. WHAT IS THE PROFILE OF LOW INCOME CUSTOMERS SERVED BY ACE?

5 A. ACE knows very little about its low income residential customers. The Company does not  
6 know how many of its customers receive LIHEAP. [RAR-LI-3] For the program year  
7 ending June 30, 2001, 17,500 Lifeline customers were identified and received a total of \$3.1  
8 million in benefits that were credited to ACE electric bills. In 1999, over 91,000 customers  
9 were protected from disconnection in the winter period under the criteria mandated by the  
10 Board. [RAR-SQ-1-4(f), Attachment 2A and 2B]

11 Q. PLEASE DESCRIBE THE PROGRAM THAT YOU RECOMMEND BE IMPLEMENTED  
12 BY ACE AS A CONDITION OF THE PROPOSED MERGER.

13 A. I recommend that ACE implement a modest, but effective, bill payment assistance program  
14 modeled on the Customer Assistance Program (CAP) that has proved so successful in  
15 Pennsylvania and which Jersey Central has committed to implement in New Jersey as part of  
16 its merger Settlement currently pending before the Board. This program is a form of a  
17 Percentage of Income Payment (PIP) program in which the amount of the bill payment  
18 assistance provided to the customer is a reflection of the customer s household income and  
19 its annual electric bill. The CAP program that Jersey Central has agreed to implement is  
20 modeled on the program in effect at the two GPU Energy distribution utilities in  
21 Pennsylvania. Pursuant to Pennsylvania s electric restructuring statute and settlements

1 reached in the GPU Energy s restructuring proceedings, both GPU Energy s affiliates,  
 2 Metropolitan Edison (MetEd) and Pennsylvania Electric Co. (Penelec), have significantly  
 3 expanded bill payment assistance and energy efficiency programs targeted to low income  
 4 customers. These programs are known as the Customer Assistance Program (CAP),  
 5 Renewable Energy Pilot Program, and the Company s Low Income Usage Reduction  
 6 Program (LIURP), known as WARM. Both CAP and WARM were required to significantly  
 7 expand as a result of its restructuring settlements adopted in 1998. These programs are  
 8 funded by ratepayers through the distribution rates in effect for each utility. Specifically, the  
 9 following program expenditures are required:

Year	Met-Ed CAP	Met-Ed LIURP (WARM)	Penelec CAP	Penelec LIURP (WARM)
1999	\$1,318,500	\$1,231,000	\$2,257,500	\$972,000
2000	\$2,237,000	\$1,400,000	\$3,037,500	\$1,320,000
2001	\$3,500,000	\$1,600,000	\$4,100,000	\$1,640,000
2002	\$4,464,000	\$1,826,000	\$4,900,000	\$1,962,000

16 Q. PLEASE DESCRIBE GPU ENERGY S CUSTOMER ASSISTANCE PROGRAM.

17 A. The Customer Assistance Program (CAP) is a type of percentage of income payment plan  
 18 program that provides eligible customers with a monthly subsidy and debt forgiveness.  
 19 Customers with a gross household income at or below 150% of federal poverty guidelines  
 20 receive both a monthly subsidy and debt forgiveness for pre-program arrears. Customers  
 21 with a gross household income between 151% and 200% of federal poverty guidelines are  
 22 not eligible for the monthly bill subsidy, but do receive debt forgiveness on a one-time basis.

1 Customers apply for enrollment in these programs through local community-based  
 2 organizations that coordinate the enrollment process with the implementation of LIHEAP  
 3 and other financial assistance programs. In addition to household income, eligible customers  
 4 must be payment troubled, defined as having \$100 or less in disposable income after  
 5 expenses. A customer is eligible for a bill subsidy based on net income. The Percentage of  
 6 Income Payment Plan is determined by using the following guidelines in conjunction with  
 7 the household s gross income minus taxes:

8 Non Heat Accounts (minimum bill payment = \$12)

9	0% to 50% poverty	pay	4% income payment
10	51% to 100% poverty	pay	5% income payment
11	101% to 150% poverty	pay	7% income payment

13 Heat Accounts (minimum bill payment = \$18)

14	0% to 50% poverty	pay	9% income payment
15	51% to 100% poverty	pay	11% income payment
16	101% to 150% poverty	pay	16% income payment

18 The intake agency may assign a lower percentage payment obligation based on  
 19 extenuating circumstances if approved by GPU Energy.

20 The balance of the customer s bill (which varies each month) is considered the  
 21 subsidy or shortfall amount. This benefit is portable to electric generation suppliers in that  
 22 the monthly shortfall benefits are allocated first to the transmission and distribution portion  
 23 of the bill, followed by the generation portion of the bill. The CAP customer pays their  
 24 monthly bill amount based on the percentage of income calculation and GPU Energy

1 distributes any shortfall benefits according to the unpaid balance of the monthly GPU Energy  
2 or energy supplier bills.

3 With respect to the arrears forgiveness portion of the program, a payment prior to the  
4 due date will result in an automatic monthly forgiveness equal to 1/24 of the total arrearage  
5 established at the time of program enrollment.

6 Q. ARE CAPs COST EFFECTIVE AND SUCCESSFUL IN MEETING THEIR INTENDED  
7 GOALS AND OBJECTIVES?

8 A. CAPs have been evaluated by electric utilities in Pennsylvania and reviewed by the  
9 Pennsylvania PUC. A report by the Pennsylvania PUC's Bureau of Consumer Services has  
10 found that the CAP programs generally have increased customer payments and met the cost  
11 effectiveness criteria of the Pennsylvania PUC's rules and the Pennsylvania PUC strongly  
12 endorsed the CAP concept in renewing the program several years ago. I am also familiar  
13 with similar programs in Ohio<sup>9</sup> and Maine<sup>10</sup> that have proven successful and effective in  
14 meeting the affordability needs of low income electric customers.

15 Q. WHAT PROGRAMS DO YOU RECOMMEND THAT THE BOARD ORDER AS A  
16 CONDITION OF ANY MERGER APPROVAL?

17 A. I recommend that Your Honor and the Board require ACE to implement a bill payment  
18 assistance program based on GPU Energy's CAP in effect in Pennsylvania, which is the

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<sup>9</sup> Ohio has implemented a Percentage of Income Payment Plan at all electric and natural gas utilities that is implemented in coordination with the state LIHEAP agency. Eligible low income customers are required to pay up to 15% of their household income for both heat and non-heating energy bills; the balance is subsidized.

<sup>10</sup> Maine's largest electric utility, Central Maine Power Co., implements an Electricity Lifeline Program that provides a fixed credit to an eligible low income customer that is calculated based on the customer's household income and annual electric bill.

1 same program that Jersey Central has committed to implement as part of the pending merger  
2 Settlement. I also recommend that ACE integrate its Comfort Partners program with the  
3 CAP so that low income customers will have a one stop shop approach in assuring  
4 affordability of vital electric service.

5 Q. HOW SHOULD CUSTOMERS BE ENROLLED IN A CAP?

6 A. I recommend that Your Honor and the Board require ACE to devise enrollment procedures  
7 that will closely coordinate the determination of eligibility for CAP with programs that  
8 already target low income customers, particularly LIHEAP and Lifeline. The agencies that  
9 implement these programs should determine a customer s eligibility for CAP based on both  
10 the household income and the annual electricity bill. ACE should negotiate electronic  
11 communication protocols with financial assistance agencies to transmit usage and annual bill  
12 information and to receive from those agencies the CAP payment requirements.

13 Q. ARE THERE OTHER UNIVERSAL SERVICE PROGRAMS THAT SHOULD BE  
14 REQUIRED AS A CONDITION OF ANY MERGER APPROVAL?

15 A. Yes, I recommend that Your Honor and the Board approve of ACE s hot weather policy  
16 that suspends disconnection of service when certain weather conditions are met. [RAR-SQ-  
17 44]. This program should be implemented as a formal condition of the merger to ensure that  
18 it is not dropped as a result of the search for efficiencies associated with the merger  
19 approval.

20 In addition, I recommend that Your Honor and the Board require ACE to explore and  
21 implement a low income energy aggregation program similar to those being implemented in

1 Ohio. In such a program, the utility s low income customers (identified as those  
2 participating in universal service programs, such as CAP and Project Comfort) will be  
3 grouped together to obtain bids for competitive electric service. The attempt to obtain lower  
4 priced service for such customers should begin now and should certainly be implemented in  
5 the post-2003 period. This type of aggregation program can result in savings to all  
6 ratepayers because, if successful, the lower rates will translate into lower bill payment and  
7 energy efficiency subsidies paid by all customers through the SBC.

8 Q. HOW SHOULD ACE INFORM CUSTOMERS OF THE EXISTENCE OF THESE  
9 PROGRAMS?

10 A. Your Honor and the Board should require ACE to assume an affirmative obligation to  
11 educate all of its customers about these programs and how to participate in them, the  
12 incremental costs for which should be included in the program costs recouped by means of  
13 the SBC. At a minimum, ACE should be required to solicit applications for enrollment in all  
14 its low income programs when a customer calls to seek protected status to prevent  
15 disconnection or calls in response to a disconnection notice to establish a payment plan.  
16 Furthermore, ACE should be required to work with local community based organizations to  
17 create and implement an outreach program that is targeted to seniors, low income, and other  
18 vulnerable customers throughout its service territory.

19 Q. ARE THE RECENTLY ORDERED INCREASES IN NJ SHARES FUNDING AND THE  
20 NEW JERSEY LIFELINE PROGRAM SUFFICIENT TO MEET THE NEEDS OF ACE S  
21 LOW INCOME CUSTOMERS?

1 A. The recent increased funding levels approved for NJ SHARES and Lifeline programs by the  
2 New Jersey Legislature, while welcome, are insufficient to respond to the needs of low  
3 income electric customers who cannot afford to pay their ACE bill on time. The NJ  
4 SHARES program is targeted to crisis management and is not an integrated bill payment  
5 assistance program because it usually triggered on a one-time basis by low income  
6 customers who have received a disconnection notice or have other evidence of crisis. In  
7 other words, it teaches customers to reach a disconnection crisis or build up a large arrears  
8 balance to trigger financial assistance. The Lifeline program is limited to disabled and  
9 elderly customers and the fixed sum benefit is not integrated into the customer's ability to  
10 pay the ACE electric bill throughout the year. Nonetheless, any utility funded low income  
11 program should be integrated with and reflect the receipt of LIHEAP, Lifeline and NJ  
12 SHARES. My recommended program will integrate the receipt of these other programs and  
13 reduce the cost of any resulting bill payment assistance program for ACE's ratepayers  
14 because the CAP fixed credit is calculated after subtracting any eligible financial assistance  
15 that is targeted to the customer's Atlantic City electric bill.

16 Q. WHAT INFORMATION IS AVAILABLE CONCERNING THE NEEDS OF ACE'S LOW  
17 INCOME CUSTOMERS AND THE POTENTIAL POOL OF CUSTOMERS WHO  
18 WOULD BE ELIGIBLE FOR YOUR PROPOSED LOW INCOME BILL PAYMENT  
19 ASSISTANCE PROGRAM?

20 A. It is not possible to estimate the firm cost of the implementation of a CAP for ACE's eligible  
21 customers at this time. However, we do know that 600 ACE customers received a NJ Shares

1 grant in the first six months of 2001, 500 customers are targeted for Project Comfort in  
2 2001, and 17,500 ACE customers received Lifeline in the 2000-2001 program year. These  
3 customers, as well as those that are eligible for LIHEAP, provide the pool from which  
4 eligible customers would be determined. However, the key feature of this program is that  
5 not all low income customers (based on analysis of income alone) will receive a benefit.  
6 Rather, customers will be determined to be eligible based on an analysis of both household  
7 income and total electric usage and annual bill, i.e., the extent to which the customer s  
8 annual bill exceeds the required percentage of income co-payment. Rather than attempt to  
9 determine how many customers might qualify for this program, I instead propose a program  
10 budget amount that should be available until expended. I have based my proposed funding  
11 level on a comparison of funding levels available for similar programs in Pennsylvania and  
12 the funding level agreed to by Jersey Central<sup>11</sup> in its pending merger stipulation.

13 Q. WHAT FUNDING LEVEL TO YOU RECOMMEND FOR THIS PROGRAM IN NEW  
14 JERSEY?

15 A. My proposal addresses expenditures that should be implemented in addition to those already  
16 ordered by the Board as part of the CRA proceeding or that are already included in ACE s  
17 existing social benefits expenditures. This approach will require the following program  
18 implementation and enrollment targets for ACE:

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<sup>11</sup>ACE has about 500,000 customers, about one-half of the number served by Jersey Central.

Year	Budget	Target for Enrolled Customers
2002	\$500,000	800
2003	\$1,500,000	2,500
2004	\$2,000,000	3,200

Q. HOW SHOULD ACE BE REIMBURSED FOR ITS ADDITIONAL EXPENSES INCURRED TO IMPLEMENT THE BILL PAYMENT ASSISTANCE PROGRAM?

A. ACE should be authorized to include the net program costs associated with this bill payment assistance program in the Social Benefits Charge (SBC) that is already authorized by New Jersey statute for programs of this type. By net I refer to those program expenses, both program benefits and administrative costs, that are in excess of savings that ACE will almost certainly experience in its collection costs associated with serving the customers enrolled in the program. I cannot project those savings, but the Company should be required to monitor the impact of this program on its collection costs, including uncollectible expenses, collection activities, including disconnection of service, and the positive impact on its working capital due to increased customer payment behavior. Again, my proposal in this regard is the same as that in effect in Pennsylvania, and ACE should be required to evaluate and report on its program expenditures in the same manner as required by its electric distribution companies in Pennsylvania.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

A. Yes, it does.